

FMC/4/2011/G/0012
No. 2/1/2008/MKT-II

September 28, 2011

To.

Shri P. Ramanathan,
Chief Compliance Officer,
Multi Commodity Exchange of India Ltd., Exchange Square,
CTS No. 255, Suren Road, Andheri (East), **Mumbai – 400093**.

Shri J. Sampath,
Chief Compliance Officer,
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Shri Anil Mishra,
MD & CEO,
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The Chief Executive Officer,
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The Chief Executive Officer,
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Sub: - Revised Guidelines for Investor Protection Fund. (IPF)

Sir,

I am directed to refer to this Office letter No. 13/2/2006/MKT-II dated 13th February, 2007 wherein Guidelines for Investor Protection Fund were issued. On receipt of suggestions of the Commodity Exchanges and after detailed discussions on the issue with the MDs/CEOs of the National Exchanges, the Commission has now revised the aforesaid Guidelines which are enclosed herewith.

The Exchanges are directed to implement these revised Guidelines at the earliest. They should operationalize the IPF Trust by 31st March, 2012 and set up the IPF Committee by 15th November, 2011. The provisions of the revised Guidelines may also be incorporated in the Bye-laws, rules and regulation of the Exchanges.

Yours faithfully,

SD /-
(Vishal Nair)
Deputy Director

Revised Guidelines for Investor Protection Fund At National Commodity Exchanges 28th September, 2011.

Investors play a significant role in the development of the commodities derivatives markets to achieve the twin objectives of price discovery and risk management. Hence, the system has responsibility to protect investors' funds from default risk of any member of the respective exchange. With a view to bring about uniformity across the National Commodity Exchanges with respect to the constitution, management and the utilization of the Investor Protection Fund (hereinafter referred to as IPF), the FMC prescribes the following Guidelines for Investor Protection Fund.

Constitution and Management of the IPF.

1. The IPF shall be administered by way of a Trust created for this purpose.
2. The IPF Trust shall consist of two eminent persons and one Independent Director on the Board of the Exchange, (these names will be suggested by Exchange and approved by FMC), the FMC nominee on the Board of the Exchange and the MD/CEO of the Exchange.
3. Exchanges, in the interim, shall continue to keep all the penalties collected in a separate bank account till the IPF Trust is set up. After the Trust is set up, the amount collected shall be transferred to the account of IPF.
4. Till formation of the Trust, Exchanges shall constitute an IPF Committee to operationalize the IPF. The composition of the IPF Committee may be same as that for the IPF Trust.

5. The Commodity Exchange shall provide the secretariat for the IPF Trust/Committee.
6. The Commodity Exchanges shall ensure that the funds in the IPF are well segregated from that of the Exchange and that the IPF is immune from any liability of the Commodity Exchange.

Contributions to the IPF.

The IPF will be funded as follows:

7. All the penalties levied and collected by the Exchange after deducting the cost of administration will be part of the Fund. The cost of administration shall not exceed 10 (Ten) percent.
8. One percent of the turnover fee charged by the Exchange from the Member/Broker or ₹ twenty five lakh whichever is lower in a financial year shall go to this Fund.

Manner of filing / inviting claims from Investors.

9. In accordance with its bye-laws, rules or regulations, the Commodity Exchange shall publish a notice inviting the legitimate claimants to file claims against the defaulter member within a specified period of time called as the 'specified period'.
10. The specified period shall be minimum of ninety days.
11. The Commodity Exchange shall publish the notice in all the editions of at least one English national daily with wide circulation and in at least one regional

- language daily with wide circulation at the place(s) where the concerned Exchange Member/s are situated.
12. The notice calling for claims shall also be displayed on the website of the Commodity Exchange for the entire specified period.
 13. The notice shall contain the specified period, the maximum compensation limit for a single claim of an investor and all other relevant information.

Eligibility Claims

14. The claims received against the defaulter members during the specified period shall be eligible for being considered for compensation from the IPF.
15. If any eligible claim arises within three years from the date of expiry of the specified period, such claims will be processed at the discretion of the IPF Trust. Any claim received after three years from the date of expiry of the specified period and not processed by the IPF Trust will be dealt with as civil dispute.
16. Any appeal against non-entertaining of claims by the Trust shall be preferred to the Board of the Exchange.
17. The claims of the retail clients alone shall be eligible for compensation from the IPF and in no case the claims of a member/broker or authorized person of the member shall be eligible for compensation out of the IPF.

Determination of Legitimate Claims.

18. The IPF Trust may adopt the arbitration mechanism at the Commodity Exchange to determine the legitimacy of the claims received from the claimants.
19. The IPF Trust may also seek the advice of the Defaulters Committee to sanction the payments to be made to the investors.

Threshold limit for claims.

20. The Commodity Exchanges are free to fix suitable compensation limits in consultation with the IPF Trust. However, the maximum amount of compensation available against a single claim of an investor arising out of default by a member/broker of a commodity Exchange shall be ₹ two lakh.
21. The Commission shall review the amount of compensation available against a single claim from an investor, at least every two years.
22. The Commodity Exchange shall disseminate the compensation limit fixed by them and any change thereof, to the public through a Press Release and also through its website.

Disbursements of claims from the IPF.

23. The IPF Trust shall disburse the amount of compensation from the IPF to the investor and such compensation shall not be more than the maximum amount fixed for a single claim of an investor.
24. Claim on the direction of any other authority on the Fund may be routed through FMC.
25. The Board of the Exchange may utilize only the interest earned on the Fund, subject to approval of the Trust, for investors' education, awareness or such other programme authorized by FMC. The corpus of the IPF will not be utilized for this purpose.
26. Investment of funds of IPF will be as per the provisions of the relevant Public Trust Act.

27. Appeal should be preferred to the Board of the Exchange on any decision of the Managing Committee of IPF regarding any claim.
28. In case the Commodity Exchange is wound up, then the balance in the IPF lying un-utilized with the IPF Trust, shall be transferred to FMC. In such an event, the funds will be maintained in a separate account and FMC would act as trustee of these funds. The funds shall be utilized for purposes of investor/client education, awareness, research or such other programme as may be decided by FMC.